



# MEMORANDUM

Department of Natural Resources

STATE OF ALASKA  
Division of Agriculture

TO: Board of Agriculture & Conservation

DATE: February 26, 2013

THRU: Franci Havemeister  
Director

*FH*

FROM: Amanda Swanson  
ARLF Loan Officer

SUBJECT: ARLF Loan Interest Rates  
Good Borrower Credit

## ARLF Loan Interest Rates

**11 AAC 39.071. Interest rates on loans. (a) At least annually, the board will review and establish interest rates for new loans that are comparable to the rates charged by other agricultural lending institutions in the state for similar types of loans.**

**(b) The interest rate that will be charged on a new loan is the rate that is in effect on the date that the new loan is approved by the board or the emergency loan committee.**

The ARLF loan interest rate for all loan types had been 8% pursuant to Statute for a number of years. As a result of 2000 legislation, the Board of Agriculture and Conservation (BAC) now sets the ARLF interest rates comparable to other Alaskan agricultural lenders.

Beginning December 18, 2001 the BAC set the ARLF short term operating loan interest rate at 6% and all other ARLF loan types at 7%. January 16, 2003 all ARLF loan interest rates were set by the BAC at 5%. The BAC reviewed the ARLF loan interest rates and good borrower credit rate February 26, 2009 and set rates at 3.00% for short term loans, 4.00% for intermediate term, and 4.50% for long term loans. The BAC reviewed and made no changes to these same rates January 21, 2010, May 3, 2010, January 20, 2011 and January 30, 2012.

All the Alaskan agricultural lender programs differ; therefore, it is difficult to make an exact comparison of ARLF interest rates. The applicable Statute does not specifically define "comparable." *Historically, the BAC has considered within 1.00% as being comparable.*

### **Alaska Rural Rehabilitation Corporation- Variable Rate**

ARRC offers conservative financing with a focus on moderate operating loans, chattel loans and farm land purchase financing. Their current interest rates are varied 5%- 9% depending on the applicant's credit and collateral. The application fee is \$100.00 for new borrowers or \$50.00 for existing borrowers. There are no loan fees. The maximum term is 20 years. The majority of the loans are closed at 5%. Their rates are adjustable every two years with no cap and are determined by comparing their rates to ARLF's.



### **USDA Farm Services Agency- Fixed Rate**

FSA offers financing if other credit is unavailable with some program loan funds targeted specifically for Disasters, Beginning Farmers and Socially Disadvantaged Farmers. In 2010 FSA added the Conservation Loan Program to be used to finance farm conservation projects that does not require a credit elsewhere determination. This program is still active however there is currently no money available for guaranteed real estate loans under this program.

Their chattel loans and real estate loans maximum are \$300,000.00. Alaska is appropriated approximately \$2 million annually however FSA is currently loaning approximately \$1.2-\$1.3 million annually. FSA also offers a guaranteed loan program to eligible lenders and eligible loan applicants. This program guarantees lender's loans from 80%- 95% based on program requirements.

This year FSA also began their Microloan program. Microloans are direct farm operating loans with a shortened application process and reduced paperwork designed to meet the needs of smaller, non-traditional, and niche type operations. Apprentice and mentorship programs, non-farm business experience and farm labor experience are acceptable alternative solutions for meeting the farm experience and managerial requirements (usual requirement is 3 years farming experience). The maximum loan amount for a Microloan is \$35,000.00 and the interest rate is the same as the operating loan rate. *Enclosed is a FACT sheet on the new loan program.*

FSA's rates change monthly based on Treasury interest rates and are fixed. Their rates are presently 1.125% for short/ intermediate term with a maximum of a seven year term and 3.125% for real estate loans with a maximum 40 year term.

### **Farm Credit Services- Variable & Fixed Rates**

Farm Credit Services offers conservative financing with FSA guarantees and has only made a few agricultural loans in Alaska over the years. They do not have an Alaskan office and process Alaskan requests out of Washington or Oregon. Their interest rates are variable rates with a cap and presently range 3.85%- 5.2% and loan fees 0-2% with a maximum 20 year term. Borrowers may be eligible for .50%- .70% annual interest refund. There may be prepayment penalties.

### **Commercial Fishing and Agriculture Bank- Variable Rate**

CFAB has very little agricultural loan activity because their interest rates are higher than most of Alaska's other agricultural lenders. Their loan programs are primarily used by the fishing and tourism industries. The interest rate for the loan depends on the collateral, with a minimum base rate of 4%. Currently the real estate rates range from 5.5%- 6.5%.

### **Agricultural Revolving Loan Fund- Fixed Rate**

ARLF is Alaska's major agricultural lender with emphasis on agricultural development. Based on October 2012's Balance Sheet, the ARLF is valued at approximately \$23.2 million, which includes \$13 million loan portfolio, \$5.3 million cash, and \$3.4 other assets. The ARLF currently offers 3.00% for short term loans with a 1 year term, 4.00% intermediate loans for up to a seven year term, and 4.50% for long term loans with a maximum term of 30 years.



**AS 03.10.010. Declaration of policy. It is the policy of this chapter to promote the more rapid development of agriculture as an industry throughout the state by means of long- term low-interest loans.**

**AS 03.10.030 Limitations on loans. (4) Shall bear interest at a fixed rate comparable to that charged by other agricultural lending institutions in the state for loans similar to those referred to in this subsection.**

Adjustments to the ARLF loan interest rates may cause some degree of impact over the long term; however, increasing the interest rates would have very little immediate impact for the ARLF. As an example, increasing all the ARLF loan interest rates to 5.00% would only increase ARLF annual revenue approximately \$18,359.00. This really has little impact on the fund. However, it has a significant long term impact on a producer's marginal cash flow.

ARLF FY 2012 interest revenue was \$641,704.00. Attached is a bar chart illustrating examples of the varying results based on interest revenue for one year only and \$2 million in estimated loan amounts.

Low loan interest rates result in a positive impact for agricultural borrowers by improving their operating cash flows and encouraging new development, however, in order for the ARLF loan fund to continue revolving, it is not recommended that ARLF lowers its interest rates further. There have not been any significant changes to national loan rates and ARLF remains comparable with other agricultural lenders, therefore ARLF's interest rates can remain the same. Another possible alternative is to lower the short term operating interest rates and slightly increase the intermediate and long term loan interest rates. This would encourage more frequent, smaller loans and improve the producer's yearly operating cash flow without having a significant impact on ARLF.



## **ARLF Good Borrower Credit Rate**

**11 AAC.39.511. Interest credit for borrowers who maintain good financial standing. (a) At least annually the board will establish an interest rate credit rate to encourage the prompt payment of loans under AS 03.10.50. Unless precluded by AS 03.10.050 (f), the board may approve interest credit on a loan granted under this chapter. The interest credit granted may not reduce the fixed rate to less than five percent a year.**

The Good Borrower Credit (GBC) program was instituted as an incentive for borrowers to pay their ARLF loans timely and when ARLF loan interest rates were set at 8% by Statute. Until the Statute changed that gave the authority to the BAC to set ARLF loan interest rates comparable to other Alaskan agricultural lenders, the GBC program was essentially utilized to adjust the interest rate. Good borrowers tend to pay timely; therefore, the effectiveness of the incentive to pay timely is minimal.

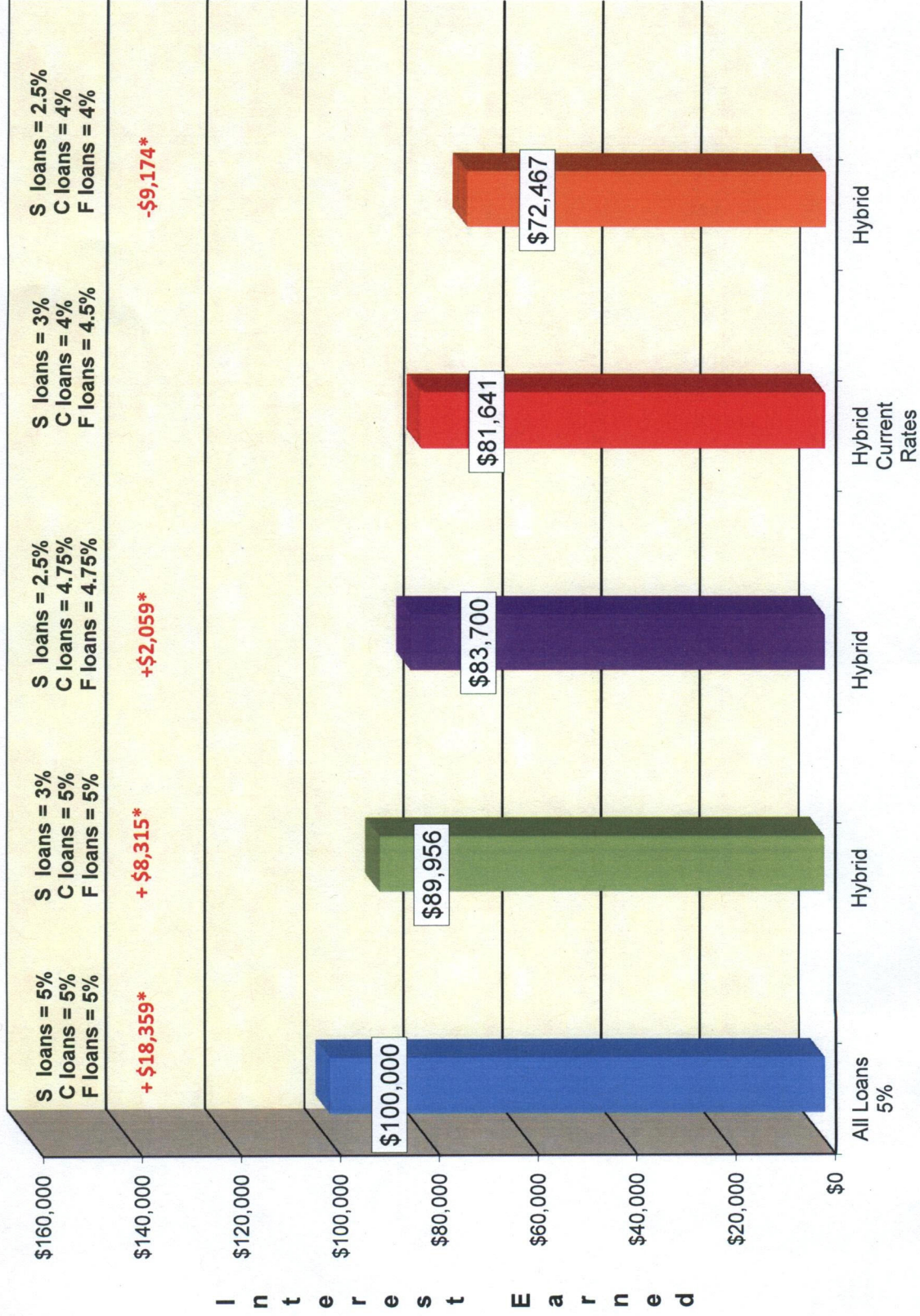
The GBC rate can be changed any number of times, however, credit can be no more than a maximum of 2% within a calendar year. GBC's are available to eligible borrowers for existing and new loans. Borrowers that presently have restructured ARLF loans, loans with terms extended, or have ever had an ADL land contract or AAAC land clearing loan restructured are not eligible for ARLF GBC's. There are "good borrowers" not eligible for good borrower credits.

Interest credit may not reduce the fixed rate to less than 5%. The majority of the ARLF portfolio has been refinanced to 5% interest rate or less. Loans with interest rates greater than 5% may not have refinanced because of standard non-qualifying reasons, low payoff balances, or they are unwilling to apply.

**Recommend "0.00%" Good Borrower Credits to be approved for 2013.**



# ARLF One Year Interest Earnings Analysis



\$2,000,000 Estimated Loan Amounts:  
 C - \$165,040 F - \$1,332,738 S - \$502,222  
 Note: This chart represents 12 months estimated earnings only  
 \*Difference in revenue compared with current interest rates





# FACT SHEET

UNITED STATES DEPARTMENT OF AGRICULTURE  
FARM SERVICE AGENCY

January 2013

## Microloans

### Overview

The Farm Service Agency (FSA) developed the Microloan (ML) program to better serve the unique financial operating needs of beginning, niche and the smallest of family farm operations by modifying its Operating Loan (OL) application, eligibility and security requirements. The program will offer more flexible access to credit and will serve as an attractive loan alternative for smaller farming operations like specialty crop producers and operators of community supported agriculture (CSA). These smaller farms, including non-traditional farm operations, often face limited financing options.

### Use of Microloans

Microloans can be used for all approved operating expenses as authorized by the FSA Operating Loan Program, including but not limited to:

- Initial start-up expenses;
- Annual expenses such as seed, fertilizer, utilities, land rents;
- Marketing and distribution expenses;
- Family living expenses;
- Purchase of livestock, equipment, and other materials essential to farm operations;
- Minor farm improvements such as wells and coolers;
- Hoop houses to extend the growing season;
- Essential tools;
- Irrigation;
- Delivery vehicles.

### Simplified Application Process

The application process for microloans will be simpler, requiring less paperwork to fill out, to coincide with the smaller loan amount that will be associated with microloans. Requirements for managerial experience and loan security have been modified to accommodate smaller farm operations, beginning farmers and those with no farm management experience. FSA understands that there will be applicants for the ML program who want to farm but do not have traditional farm experience or have not been raised on a farm or within a rural community with agriculture-affiliated organizations. ML program applicants will need to have some farm experience; however, FSA will consider an applicant's small business experience as well as any experience with a self-guided apprenticeship as a means to meet the farm management requirement. This will assist applicants who have limited farm skills by providing them with an opportunity to gain farm management experience while working with a mentor during the first production and marketing cycle.

### Security Requirements

For annual operating purposes, microloans must be secured by a first lien on a farm property or agricultural products having a security value of at least 100 percent of the microloan amount, and up to 150 percent, when available. Microloans made for purposes other than annual

operating expenses must be secured by a first lien on a farm property or agricultural products purchased with loan funds and having a security value of at least 100 percent of the microloan amount.

### Rates and Terms

Eligible applicants may obtain a microloan for up to \$35,000. The repayment term may vary and will not exceed seven years. Annual operating loans are repaid within 12 months or when the agricultural commodities produced are sold. Interest rates are based on the regular OL rates that are in effect at the time of the microloan approval or microloan closing, whichever is less.

### More Information and Eligibility Criteria

Additional information on the FSA microloan program may be obtained at local FSA offices or through the FSA website at [www.fsa.usda.gov](http://www.fsa.usda.gov).

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## Comments

**Good Borrower Credit may not reduce rate to less than 5%**

**Interest rate adjustment every 2 years with no interest rate cap**

**FSA Emergency Loan Rate 4.625%**

**Interest rate adjustment varies with interest rate cap.  
May have prepayment fees. Fixed & ARM rates are also available.  
May be eligible for .50% - .70% annual interest refund**

CFAB					
Interest - Variable	5.5- 6.5%	5.5 – 6.5%	5.5 – 6.5%	5.5 – 6.5%	5.5 – 6.5%
Term	1 year	7 years	12 years	12 years	20 years
Fees-2% loan fee + \$200 - \$400 expenses					
Loans limited to 100% CLTV, 70% to 80% standard					
Rate & LTV determined by collateral & credit					
Alaskan residents only					



**ARLF Loan Interest Rate**

	Short Term	Chattel	Development	Irrigation	Processing	Clearing	Real Estate
Existing Interest Rates	3.00%	4.00%	4.50%	4.50%	4.50%	4.50%	4.50%
Rate Changes Effective February 28 <sup>th</sup> , 2013 OR February 29 <sup>th</sup> , 2013 For any rate increase	_____ %	_____ %	_____ %	_____ %	_____ %	_____ %	_____ %

**Good Borrower Credit Rate**

2012 GBC Rate 0.00%

GBC Rate Effective  
February 28<sup>th</sup>, 2013 \_\_\_\_\_ %

Subject to:

BAC Chair \_\_\_\_\_  
Signature Date



## AGRICULTURAL REVOLVING LOAN FUND

### Good Borrower Credits



Alaska Department of  
**NATURAL  
RESOURCES**  
Division of Agriculture

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### Criteria

The Board of Agriculture and Conservation (BAC) will, prior to the applicable year, establish a list of those Agricultural Revolving Loan Fund (ARLF) borrowers who meet good borrower credit eligibility and may approve the granting of credits on eligible ARLF loans. New ARLF borrowers, unless otherwise disqualified, may be eligible for good borrower credits the current applicable year.

Loans in moratorium would not affect good borrower credit eligibility. Interest would continue to accrue at its contracted rate and credits would be made only after payments were made.

**A qualifying borrower is** a borrower who maintains good financial standing and

(A) has no ARLF loan that

- is in default;
- has been rewritten;
- has been restructured
- has been rolled over;
- has had its term extended;
- has had interest rate reduction; and

(B) has never had a Department of Natural Resources (DNR) land payment or Alaska Agricultural Action Council (AAC) land-clearing loan restructured.

A borrower who assumes an ARLF loan may be granted a credit if otherwise qualified.

**A borrower maintains good financial standing** by complying with the terms of all ARLF agreements and has no payments owed under any agreements that are more than 30 days past the payment due date.



### **Credits**

- The maximum credit that will be granted is two percentage points of the annual interest rate. Interest credit may not reduce the fixed rate to less than five percent per year.
- The credit will be applied each time a payment is made in at least the full amount due and if paid on or before 30 days after the date the payment is due.
- A credit will only apply to the amount of interest due on a loan and will not reduce the amount of the payments.
- A borrower shall receive no refunds except upon overpayment of the total outstanding balance on the qualifying loan.
- Credits may not be transferred between loans or calendar years.
- If a borrower fails to maintain good financial standing or ceases to be a qualifying borrower, the borrower shall be ineligible for any further credits during that calendar year.

**Authority: AS 03.10.020  
AS 03.10.030  
AS 03.10.050  
11 AAC 39.511**